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U.S. Congress. House.

Refunding foreign
obligations

Washington

1921

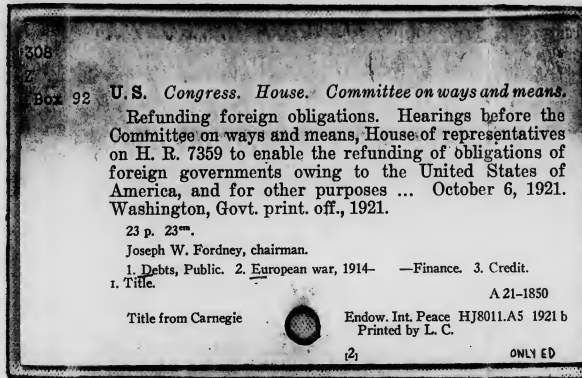
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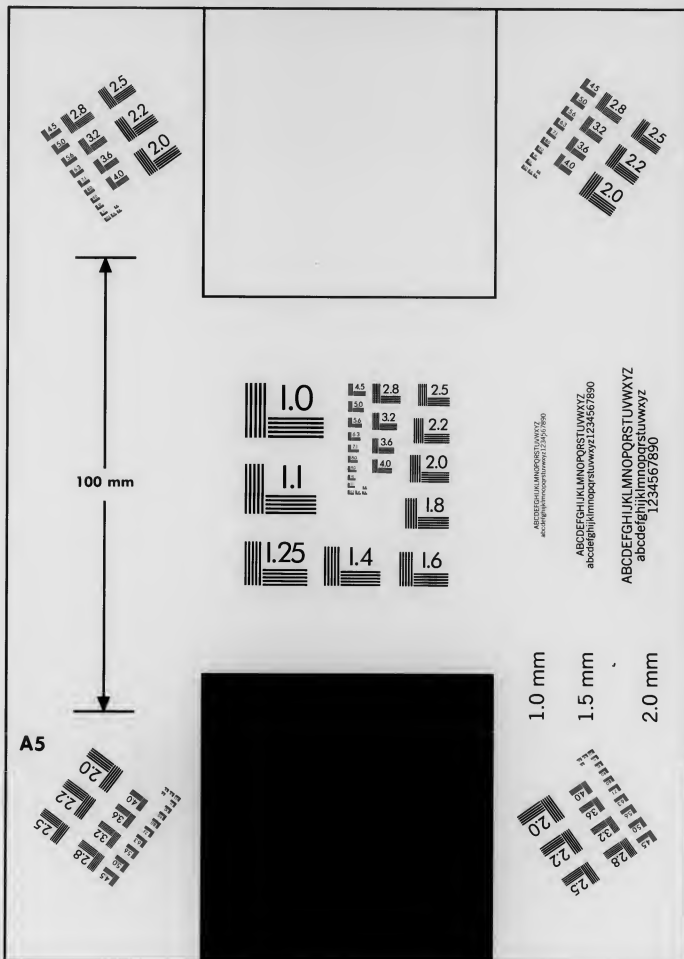
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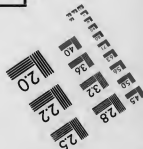
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21
FOREIGN OBLIGATIONS

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HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ON

H. R. 7359

TO ENABLE THE REFUNDING OF OBLIGATIONS OF
FOREIGN GOVERNMENTS OWING TO THE UNITED
STATES OF AMERICA, AND FOR OTHER PURPOSES

THURSDAY, OCTOBER 6, 1921



WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

COMMITTEE ON WAYS AND MEANS.

HOUSE OF REPRESENTATIVES.

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

JOSEPH W. FORDNEY, Michigan, *Chairman*.

WILLIAM R. GREEN, Iowa.
NICHOLAS LONGWORTH, Ohio.
WILLIS C. HAWLEY, Oregon.
ALLEN F. TREADWAY, Massachusetts.
IRA C. COPLEY, Illinois.
LUTHER W. MOTT, New York.
GEORGE M. YOUNG, North Dakota.
JAMES A. FREAR, Wisconsin.
JOHN Q. TILSON, Connecticut.
ISAAC BACHARACH, New Jersey.
LINDLEY H. HADLEY, Washington.
CHARLES B. TIMBERLAKE, Colorado.
GEORGE M. BOWERS, West Virginia.
HENRY W. WATSON, Pennsylvania.
ALANSON B. HOUGHTON, New York.
THOMAS A. CHANDLER, Oklahoma.

ERNEST W. CAMP, *Clerk*.

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REFUNDING FOREIGN OBLIGATIONS.

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Thursday, October 6, 1921.

The committee met at 10 o'clock a. m., Hon. Joseph W. Fordney (chairman) presiding.

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY, ACCOMPANIED BY MR. ELIOT WADSWORTH, ASSISTANT SECRETARY IN CHARGE OF FOREIGN LOANS.

THE CHAIRMAN. Mr. Secretary, you will recall that you sent up a draft of a bill, one of which was sent to the Finance Committee and one to this committee. Senator Penrose introduced one in the Senate and I introduced the other in the House. I believe the Finance Committee reported out their bill with an amendment which limited the time to five years.

Secretary MELLON. Yes.

THE CHAIRMAN. Now, Mr. Secretary, will you be kind enough to tell us, in round numbers, what these loans amount to, what countries they are with, and the proportion owing by each country, and the exact situation in reference to them?

MR. HAWLEY. Mr. Chairman, that information is very thoroughly set forth in the letter which is before each member of the committee, and I suggest that the letter be made a part of the hearing and then the Secretary can comment on it.

THE CHAIRMAN. I had not seen that letter.

(The letter referred to is as follows:)

THE WHITE HOUSE,
Washington, June 22, 1921.

MY DEAR MR. FORDNEY: I am inclosing to you herewith a copy of a letter which I have received from the Secretary of the Treasury relating to the obligations of foreign Governments to the United States which arose out of the World War and our participation therein. The statement is a comprehensive one, showing the detailed obligations which are owing to the United States, and the Secretary points out the urgent necessity of broad powers granted by the Congress for the arrangement for the refunding or conversion or extension of the time of payment of principal and interest on these obligations and the adjustment of other claims of the United States against foreign Governments. All the circumstances suggest the grant of broad powers to the Secretary of the Treasury to handle this problem in such a manner as best to protect the interests of our Government.

I hope your committee and the Congress will find it consistent promptly to sanction such an act as that which is suggested by the inclosed draft. If the Congress will promptly sanction such a grant of authority the Secretary of the Treasury may proceed to the prompt exercise of the powers granted to him, and we reasonably may expect a satisfactory handling of the obligations due and the claims of our Government which are awaiting settlement.

Sincerely, yours,

WARREN G. HARDING.

HON. JOSEPH W. FORDNEY,
*Chairman Ways and Means Committee,
House of Representatives.*

TREASURY DEPARTMENT,
Washington, June 21, 1921.

MY DEAR MR. PRESIDENT: I desire to call to your attention the situation respecting the matter of the refunding of the debt of foreign Governments to the United States arising out of the European war.

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This debt as now held summarized is as follows:

Obligations for advances made under the various Liberty bond acts.....	\$9,435,225,329.24
Obligations received from the American relief administration.....	84,068,963.55
Obligations received from the Secretary of War and from the Secretary of the Navy on account of the sale of surplus war materials.....	565,048,413.80
Obligations held by the United States Grain Corporation.....	56,859,879.09

Total..... 10,141,267,585.68

Annexed hereto are statements showing in detail the obligations above referred to, giving, as to each class, the amount owing by each country and, in the case of loans from the proceeds of Liberty loan bonds, the amount thereof loaned from the proceeds of the first Liberty loan bonds and the amount from subsequent Liberty loan bonds.

From this statement it will be seen that the obligations in respect of loans from the proceeds of Liberty bonds are all demand or overdue obligations, while the other classes referred to mature at various dates, beginning June 30, 1921, and extending to August 1, 1929. The obligations mentioned as being held by the United States Grain Corporation were received by that corporation from foreign Governments on account of the sale of flour under the act of March 30, 1920. As they may at any time be turned into the United States Treasury, and some of them mature on June 30 next, they are included here so that they may be dealt with along with other like obligations.

From the statement it will also be seen that the obligations of the various classes named are largely owing by the same debtors; but it is to say, if this Government in the refunding of the various classes of these obligations will to a considerable extent have to deal with the same Governments.

I am advised that, except as to the advances made out of the proceeds of Liberty loan bonds, this department is without authority to consent to any extension of the time for payment of the principal or of the interest of these obligations or to proceed with the refunding thereof. As to the advances made out of the proceeds of Liberty loan bonds, the existing authority contains such diverse provisions as to interest rates, the maturity, and other terms of the refunding bonds that may be accepted by the department as makes it difficult to formulate a plan whereby the interests of this Government may be as well protected and the bonds to be received be in as desirable form as would be the case if the entire debt of each country could be dealt with as a whole and free from such restrictions.

In some cases the debtor nations owe large amounts to other countries as well as to the United States, and it may be advisable, and in some cases indeed necessary, to consider comprehensively the entire debt of such countries, their financial condition and resources, so as to work out a refunding plan reasonably within the ability of such countries to carry out.

In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest. To insist on payment might be disastrous to the peoples of such countries; and besides there may have to be given consideration to the bearing of the adverse foreign exchange rates existing at the time against those debtor countries and which may make it desirable to defer payment of interest.

Under the circumstances I have briefly referred to, it is, I think, clear that by reason of the lack of any authority as to a part of these foreign obligations and the restrictions upon the existing authority as to the others, it is impossible in any refunding under the varying conditions that exist to deal fairly with the debtor countries and at the same time protect the interests of this country. To do this it is essential that the department have full authority as to all such foreign indebtedness to determine the form and terms of the settlements and of the refunding obligations, the rate or rates of interest, the maturity dates, and the right to extend the time for the payment of interest on the indebtedness to be refunded. It is also of importance that the department should have adequate authority to adjust and settle claims against foreign Governments which are not in the form of bonds or obligations, as for example the claim for costs of our military forces of occupation.

I have prepared a draft of an act of Congress to accomplish the purpose stated and, should you transmit this communication to Congress, shall be glad

to appear before the appropriate committees relative to the situation and the necessity for the authority requested.

Faithfully yours,

THE PRESIDENT,
The White House.

A. W. MELLON, Secretary.

Amount of obligations of foreign Governments held by the Treasury for advances made under the various Liberty bond acts.

Country.	First Liberty bond act.	Subsequent Liberty bond acts.	Total Liberty bond acts.	Present interest rate.	Maturity.
				<i>Per cent.</i>	
Belgium.....	\$35,000,000.00	\$312,691,566.23	\$347,691,566.23	5	Demand or overdue.
Cuba.....	9,025,900.00	9,025,900.00	9,025,900.00	5	Do.
Czechoslovakia.....	61,256,208.74	61,256,208.74	61,256,208.74	5	Do.
France.....	650,000,000.00	2,307,762,938.19	2,957,762,938.19	5	Do.
Great Britain.....	1,155,000,000.00	3,011,315,355.44	4,166,315,355.44	5	Do.
Greece.....	15,000,000.00	15,000,000.00	15,000,000.00	5	Do.
Italy.....	175,000,000.00	1,473,031,000.90	1,648,031,000.90	5	Do.
Liberia.....	25,000.00	25,000.00	25,000.00	5	Do.
Rumania.....	23,205,819.52	23,205,819.52	23,205,819.52	5	Do.
Russia.....	97,000,000.00	17,000,000.00	114,000,000.00	5	Do.
Serbia.....	1,300,000.00	24,675,136.22	26,175,136.22	5	Do.
Total.....	2,114,000,000.00	7,321,225,329.24	9,435,225,329.24		

¹ Advances up to Sept. 24, 1917.

Obligations received from the Secretary of War and from the Secretary of the Navy on account of sale of surplus war materials.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Belgium.....	\$19,000,000.00	.....	Apr. 10, 1918	Apr. 10, 1922	5
	8,992,997.57	.....	Aug. 5, 1919	Aug. 5, 1922	5
	196,458.57	.....	Aug. 21, 1919	Aug. 21, 1922	5
		\$27,588,561.14			
Czechoslovakia.....	5,000,000.00	.....	May 29, 1919	June 30, 1922	5
	5,000,000.00	.....	June 15, 1919	June 30, 1923	5
	4,962,994.94	.....	Aug. 10, 1919	June 30, 1924	5
	2,464,850.38	.....	Oct. 14, 1919	Oct. 14, 1922	5
	1,291,803.85	.....	Feb. 10, 1920	Jan. 28, 1923	5
	1,862,145.37	.....	May 1, 1920	June 30, 1923	5
		\$20,621,994.54			
Estonia.....	5,000,000.00	.....	June 6, 1919	June 30, 1922	5
	5,000,000.00	.....	June 11, 1919	June 30, 1923	5
	2,213,377.88	.....	June 26, 1919	June 30, 1924	5
		\$12,213,377.88			
France.....	400,000,000.00	400,000,000.00	Aug. 1, 1919	Aug. 1, 1929	5
Latvia.....	2,521,869.32	2,521,869.32	June 28, 1919	June 30, 1922	5
Lithuania.....	4,159,691.96	4,159,691.96	.....	.....	5
Poland.....	\$10,000,000.00	.....	June 3, 1919	June 22, 1922	5
	10,000,000.00	.....	.....	.....	5
	10,000,000.00	.....	July 19, 1919	June 30, 1924	5
	10,000,000.00	.....	July 22, 1919	.....	5
	7,890,928.27	.....	July 31, 1919	Oct. 1, 1923	5
	5,536,867.71	.....	Oct. 1, 1919	Oct. 1, 1925	5
	3,944,803.61	.....	Oct. 15, 1919	Oct. 15, 1925	5
	2,265,709.66	.....	Apr. 22, 1920	Mar. 27, 1926	5
		\$9,686,320.25			
Rumania.....	5,000,000.00	.....	June 27, 1919	June 30, 1922	5
	5,000,000.00	.....	.....	.....	5
	2,922,675.42	.....	Aug. 13, 1919	June 30, 1924	5
		\$12,922,675.42			
Russia.....	406,082.30	406,082.30	Aug. 8, 1919	June 30, 1922	5
Serbia, Croats, and Slovenes.....	5,000,000.00	.....	June 15, 1919	.....	5
	5,000,000.00	.....	Aug. 30, 1919	June 30, 1923	5
	10,000,000.00	.....	.....	.....	5
	30,320.28	.....	Dec. 20, 1919	.....	5
	281,203.51	.....	Apr. 15, 1920	Apr. 15, 1924	5
	4,646,463.20	.....	Apr. 29, 1920	June 30, 1925	5
		\$4,978,020.90			
Total.....		565,048,413.80			

Obligations held by the United States Grain Corporation.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
Armenia.....	\$793,733.40		Nov. 20, 1919	June 30, 1921	5
	473,335.00		Nov. 20, 1919	do	5
	656,190.00		Dec. 10, 1919	do	5
	748,725.00		Jan. 26, 1920	do	5
	129,405.00		Jan. 26, 1920	do	5
	949,663.11		May 20, 1920	do	5
	181,233.83		July 17, 1920	do	5
		\$3,881,505.34			
Austria.....	24,053,708.92	24,053,708.92	Sept. 4, 1920	Jan. 21, 1925	6
Czechoslovakia.....	2,873,225.25	2,873,225.25	July 30, 1920	Jan. 1, 1925	6
Hungary.....	1,685,833.61	1,685,833.61	May 29, 1920	do	6
Poland.....	982,147.50		Dec. 1, 1919	June 30, 1921	5
	146,832.50		Dec. 19, 1919	do	5
	2,148,538.37		Mar. 12, 1920	do	5
	961,975.80		Mar. 22, 1920	do	5
	1,695,663.09		Mar. 26, 1920	do	5
	1,084,133.66		Apr. 2, 1920	do	5
	804,591.99		Apr. 9, 1920	do	5
	951,392.04		Apr. 13, 1920	do	5
	1,147,319.34		Apr. 28, 1920	do	5
	828,633.04		Apr. 28, 1920	do	5
	453,966.98		May 10, 1920	do	5
	759,134.29		May 12, 1920	do	5
	448,331.49		May 13, 1920	do	5
	68,533.19		May 14, 1920	do	5
	47,377.05		June 2, 1920	do	5
	30,728.35		July 1, 1920	do	5
	62,196.98		July 14, 1920	do	5
	12,132,279.75		July 13, 1920	do	6
		\$6,381,899.97			
Total.....		36,899,879.09			

Obligations received by the Treasury from the American Relief Administration.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
Armenia.....	\$8,028,412.15	\$8,028,412.15	June 30, 1919	June 30, 1921	Per cent.
Czechoslovakia.....	6,428,080.19	6,428,080.19	do	June 30, 1923	5
Estonia.....	1,783,767.72	1,783,767.72	June 11, 1919	June 30, 1921	5
Finland.....	3,288,276.98		June 30, 1919	do	5
	4,995,649.19		July 1, 1920	do	5
		\$8,281,926.17			
Latvia.....	2,610,417.82	2,610,417.82	June 30, 1919	do	5
Lithuania.....	822,198.07		do	do	5
Poland.....	10,000,000.00		do	do	5
	10,000,000.00		do	June 30, 1922	5
	31,671,749.36		do	June 30, 1923	5
Russia.....	4,465,465.07	51,671,749.36	July 1, 1919	June 30, 1921	5
		4,465,465.07			
Total.....		\$4,093,963.55			

The CHAIRMAN. Mr. Secretary, the committee will be glad to hear anything you have to say in reference to this matter. It is of great importance to our Government that something be done in the settlement of these claims.

Secretary MELLON. Yes; it is very necessary, because we have not authority to treat with the different countries. The only authority which exists is that given in the Liberty loan act, and that makes a different program for each country according to where the money came from; that is, each Liberty loan act prescribes or gives authority to refund these loans to the same extent as the bonds provided, from which the money came that was loaned to the foreign Governments; and there are lesser loans to the same Governments, where we have not any authority to give them any time, and those are overdue. The CHAIRMAN. Those accounts are past due now?

Secretary MELLON. Yes.

The CHAIRMAN. And there is no authority of law for extending those claims for any length of time?

Secretary MELLON. No. The Treasury is without any authority to give them any extension, and those countries are utterly unable to make payments at this time, so it is just a deadlock.

Mr. HAWLEY. And it was not the intention of our Government to demand payment at this time when we made the loans?

Secretary MELLON. No.

Mr. HAWLEY. We anticipated extending them over a period of years?

Secretary MELLON. That was undoubtedly the intention.

Mr. TREADWAY. Mr. Secretary, what information has reached you as to their probable payment; that is, when they are likely to get into a condition where they can pay on the principal or the interest?

Secretary MELLON. You are referring now to these minor loans?

Mr. TREADWAY. I was referring more particularly to your statement on page 4; that paragraph in which you say:

"In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest."

Has there been any further information reaching you of a more definite nature both as to payment of principal and interest?

Secretary MELLON. Not anything since this statement was made; but from all the information that we have relating to the affairs of these governments, we know that—at least with most of them—it will be utterly impossible for them now to meet the payments.

Mr. TREADWAY. Even the maturing interest.

Secretary MELLON. I would not say as to the maturing interest. There are some cases where they might be able to pay interest.

Mr. WADSWORTH. The difficulty with most of these countries, particularly the smaller ones who borrowed money for relief supplies and who gave their notes for the purchase of surplus Army and Navy supplies—that is, the small eastern European countries, is that their currency has been steadily depreciating as compared to the dollar. So that to-day the Polish mark, which at one time was worth perhaps 50 to the dollar is now 5,000 to the dollar; and, of course, that makes it much more difficult for them to pay us in dollars, because the only thing they have to pay debts with is their own money.

Mr. TREADWAY. That would apply more particularly to the "obligations received from the Secretary of War and from the Secretary of the Navy on account of the sale of surplus war materials," to which you refer in this same letter.

Secretary MELLON. And the relief supplies.

Mr. OLDFIELD. Mr. Secretary, you do not expect any authorization from Congress to collect this money in anything except American dollars?

Secretary MELLON. No; but those countries will have to be given time and some arrangement made by which some time in the future they will commence to make payments.

Mr. OLDFIELD. Of course, it will be in American dollars.

Secretary MELLON. It will be utterly impossible to enforce any payment there because they have no gold. The only possible way they could make any payments at the present time would be in commodities, or something in that direction.

Mr. WADSWORTH. To answer your question directly, there is no authority here for us to take the bonds payable in some other currencies.

Mr. OLDFIELD. Other than our own.

Mr. WADSWORTH. Other than our own.

Mr. OLDFIELD. Do you want any authority other than that?

Secretary MELLON. Oh, no. This proposed measure does not contemplate any kind of payment other than in American dollars.

Mr. YOUNG. What you recommend is the language found in the act suggested on page 7. That is what you recommend, is it not?

Secretary MELLON. Yes.

Mr. HAWLEY. Are the terms and conditions under which those people abroad will repay their loans so indefinite as to make it impossible to prescribe in legislation the terms and the periods for which their obligations should run?

Secretary MELLON. Yes.

Mr. HAWLEY. I notice in this bill it is left entirely to the Secretary of the Treasury or to the Treasury Department to determine how long any bond shall run, when payments shall be made, the rates of interest to be paid, and when extensions shall be granted. Do you think such wide power as that is necessary?

Secretary MELLON. Yes. You see, it would be utterly impossible now to make any schedule of payments, because it depends in each country upon the conditions there existing; and, besides, these countries not only owe us but they also owe some of the other countries of the Allied Powers. For instance, you may take one of those countries that owes money to our Government, they also owe, perhaps, money to the British Government and to the French Government, etc. Now, to a certain extent in arranging for the payment of the indebtedness, we have to consider their indebtedness to these other countries, because, for instance, it is conceivable that one of those Governments might endeavor to enforce some terms of payment that would be to our disadvantage; that is, that would be requiring payment ahead of our payment, or possibly requiring some kind of security which, if it were given, might leave that country without resources to give us security. So that we have to work to a certain extent, or have an understanding to some extent, with the other creditor nations of those powers in order to work out some orderly plan by which they can some time meet these payments.

Mr. TREADWAY. Are the conditions better in the principal nations, like France, Great Britain, and Italy, for payment than in the smaller countries to which you have previously referred?

Secretary MELLON. Oh, yes.

Mr. TREADWAY. There is more likelihood then of their meeting their obligations with a certain degree of promptness than where the indebtedness is smaller.

Secretary MELLON. Yes; it is a clearer proposition for them.

Mr. WATSON. Mr. Secretary, may I ask you a question here? In the bill presented by Mr. Fordney it is stated: Giving the United States power "to adjust and settle any and all claims not now represented by bonds or obligations." One would infer from that that some obligations have already been settled by bonds; is that correct?

Secretary MELLON. No; I think not.

Mr. WATSON. I refer to the last six lines on page 7 giving power to the United States "to adjust and settle any and all claims, not now represented by bonds or obligations, which the United States of America now has or hereafter may have against any foreign Government and to accept securities therefor." One might infer from reading that, that some of the obligations have already been settled by bonds.

Mr. WADSWORTH. I might say on that that there are a number of special agreements that were made when these loans were made. For instance, a relief loan was made to Austria two years ago by Italy, France, and England. Sixteen million dollars was advanced by each of these countries out of advances received from the United States. A joint claim or lien was taken upon certain assets of Austria at this time by these countries, and it was agreed that any payments which Austria might make under this lien to Italy, France, or Great Britain should be paid over to the United States to be applied on the obligations of those countries for the advances made for such relief.

Mr. WATSON. Were they in the nature of bonds?

Mr. WADSWORTH. The Austrian Government gave a lien on certain forests and salt mines and other things.

Mr. WATSON. A sort of mortgage, then.

Mr. WADSWORTH. A sort of mortgage, which was taken by this joint operation which went to the relief of Austria just six months after the armistice. That stands out to-day, and that lien is still there, and there is no authority in this Government to-day to release that lien in the interest of the Austrian financial situation so that they can get some more money to go on with or to buy raw materials.

Mr. WATSON. Of course, it bears interest at 5 per cent, probably.

Mr. WADSWORTH. It bears interest.

Mr. WATSON. Would that give you authority to foreclose and sell, for instance, the forest lands?

Mr. WADSWORTH. It would in civil life. I do not know just how you would foreclose it politically.

Mr. FEAR. Or how you would exercise control of your security.

Mr. WADSWORTH. I do not know about that. The difficulty is to-day that there is a movement on to bring relief to Austria. The other nations, so we read in the papers, have already agreed to release that lien in order that Austria may, practically on a reorganization basis, have its assets to make a new loan. There is no authority in anybody in this Government to release our position. Therefore, while all the other creditors agree to release, we stand out, holding this prior lien, and the relief plan that was worked out—

Mr. WATSON. Does your department suggest that we release them and take other obligations? Of course, Austrian bonds would not be very valuable now.

Mr. WADSWORTH. No. We would not take other obligations. We might release our lien, if all the others did, if it seemed to the best interest of our debtor that they should use these liens to borrow some other money in order to get going.

Mr. YOUNG. But you would not surrender your obligation.

Mr. WADSWORTH. Oh, no; but we would have the right under this language to take a new obligation.

Mr. YOUNG. Austria would still owe you that amount.

Mr. WADSWORTH. Yes.

Secretary MELLON. In other words, we need authority to join with the other countries in making some practical arrangement in Austria. As it is, it is just a deadlock and nothing can be done.

Mr. YOUNG. In other words, you want to give your debtor a chance to make some money.

Mr. WADSWORTH. That is it.

Mr. WATSON. Is Austria the only country in which you have liens against public properties?

Mr. WADSWORTH. We have liens in certain other countries against any reputation payments which they may receive, and which we have no authority to deal with in conjunction with the other countries who also have similar liens. We do not know that we will ever be asked to give this up but if they reorganize their finances—

Mr. OLDFIELD (interposing). This bill also provides for the trading or exchanging of the bonds of one country for the bonds of another country; for instance, the British for the French or the French for the Austrian.

Secretary MELLON. In regard to that, there is not any particular place where we expect that to apply. It was simply thought desirable to have broad authority so that if some contingency arose that would require an exchange of that kind, we would be in position to act on it. For instance, say, in Austria, there may be, in joining with these other nations, some other security we could take in exchange that might be better than the position we are in now. We have not anything in contemplation and there is not any contingency of that kind that we anticipate at all, but here are complicated negotiations with a variety of Governments, and almost any contingency is liable to arise, and therefore, it is desirable, and likely essential, to have that authority.

Mr. OLDFIELD. You have made that just about as broad as it could be made, Mr. Secretary.

Secretary MELLON. Yes.

Mr. FEAR. In other words, there is no limitation whatsoever upon your acts under this language, either as to the rate of interest or the time of maturity of the obligations, or anything of that kind, is there, Mr. Secretary?

Secretary MELLON. No.

Mr. TREADWAY. In that connection, Mr. Secretary, would it be feasible in funding these debts into long-time obligations, to make it a provision of such refunding that the interest should be paid?

Secretary MELLON. That is a part of the refunding. You always provide for that.

Mr. TREADWAY. But my point is to insist on its payment. We are not collecting interest to-day on these obligations from anybody, are we?

Mr. HAWLEY. England.

Secretary MELLON. On some parts of these debts the interest is being paid. For instance, the French Government is paying the interest on \$400,000,000 of obligations that we have.

The CHAIRMAN. For the purchase of war supplies?

Secretary MELLON. Yes, sir.

Mr. TREADWAY. Out of the amount that we have furnished them in cash from the sale of Liberty bonds to our own people, showing a total indebtedness to us of \$2,950,000,000 and over, no interest being paid on that?

Secretary MELLON. No, sir.

Mr. HAWLEY. We especially agreed as to that.

Mr. TREADWAY. My thought is whether it would be feasible to include in this refunding scheme a provision requiring that that interest should be annually paid.

Secretary MELLON. That is exactly what this refunding proposes to do. The whole thing is this, that each Government owes a certain amount of money upon which it is necessary to make an agreement in which they will say in writing how that principal and how that interest shall be paid, and in that, of course, will be the stipulation as to the payment of interest.

Mr. TREADWAY. Do you think that we would be in any better position to enforce the demand than we are now? In other words, the interest is long overdue, and if we start a new scheme will the interest continue to accumulate as it has in the past?

The CHAIRMAN. Mr. Treadway, if I am correct, we now hold the demand obligations of all these Governments.

Mr. TREADWAY. Yes, sir.

The CHAIRMAN. When the loans were made under the act authorizing the loans it was intended that we should take time obligations.

Secretary MELLON. Yes, sir.

The CHAIRMAN. For whatever our bonds were issued for on which we borrowed the money we took demand obligations for the reason, as was explained by Mr. McAdoo before the committee at one time, we did not know how much money we would loan those people and we did not know how much interest we would have to pay at home to get the money, and it was agreed between the Treasury Department and the foreign Governments that our Government would take time obligations, and when the final loans were completed, all the loans were completed, and the war was over, that then we would change those demand obligations into time obligations. The rate of interest, 5 per cent, had been agreed upon which was then the rate that we were paying to borrow the money. The reason that it was made 5 per cent was because we did not know how much we would have to pay for interest before we got through with the war and it was agreed that the foreign Governments should pay 5 per cent.

Mr. TREADWAY. They have never paid the interest; that is the point that I am making.

The CHAIRMAN. Our Government by some agreement postponed the payment of the interest for three years. Mr. Davis came before us and asked for the rate that existed in the law.

Mr. HAWLEY. They stated at the hearing that they had that authority.

Mr. OLDFIELD. They stated that they would not do that unless it was indorsed.

Mr. TREADWAY. We took no action.

The CHAIRMAN. They wanted us to take action, but we did not.

Mr. OLDFIELD. They stated that they would not take action unless we agreed with them.

The CHAIRMAN. Was there an understanding arrived at between our Treasury Department and these foreign Governments that the payment of the interest should be extended for three years?

Secretary MELLON. Yes, sir.

The CHAIRMAN. That was agreed upon?

Secretary MELLON. Yes, sir.

Mr. YOUNG. When was that done?

The CHAIRMAN. At the time, I presume, that Mr. Davis was before the committee.

Mr. WADSWORTH. In the spring of 1919.

Mr. OLDFIELD. I should like to inquire whether the Secretary took that action? Secretary MELLON. The foreign Governments were advised that they could defer the payment of interest "for two or three years." That was the wording of it.

Mr. FREAR. Does it provide there for the rate of interest at 5 per cent as stated by the chairman? I wonder, if so, where that agreement exists?

The CHAIRMAN. That was the loans were first made.

Mr. FREAR. Where can that agreement be found in the record?

The CHAIRMAN. I do not know. Mr. McAdoo stated that before the committee.

Mr. WADSWORTH. May I explain that?

The CHAIRMAN. Yes, sir; please explain also that after they extended the time for the payment of this interest then for two years after the three years elapsed the foreign Governments were to pay 5 1/2 per cent and the succeeding two years 6 and 6 1/2 per cent and then drop back.

Mr. TREADWAY. That was the scheme that he wanted to put into effect.

The CHAIRMAN. That was his suggestion to us.

Mr. WADSWORTH. That agreement was never carried through.

Mr. OLDFIELD. That was never carried out?

Mr. WADSWORTH. That was the tentative negotiation that was spoken of. The rate of interest at 5 per cent was arrived at pending different negotiations for this reason. We put out 3.5 per cent bonds entirely nontaxable which, of course, cost this Government more than 3.5 per cent, because they are held by individuals who pay income tax. Then some of the later issues are nontaxable in the hands of holders up to \$5,000. That cost us actually more than the rate of interest we try.

Mr. FREAR. There is an understanding that they are paying 5 per cent now?

Mr. WADSWORTH. Yes, sir.

Mr. FREAR. In what form is that, in a memorandum with these foreign Governments?

Mr. WADSWORTH. I think we exchanged letters with them all.

Mr. FREAR. Has that been put into any hearings of the Senate Finance Committee?

Mr. WADSWORTH. No; it has not. I am not sure whether that is an accepted arrangement. They have accepted the liability of 5 per cent for several years.

Mr. FREAR. In what form have they accepted that rate through this correspondence; they have not paid the interest?

Mr. WADSWORTH. Up to the spring of 1919 they paid the interest.

Mr. FREAR. On the entire loan?

Mr. WADSWORTH. Yes, sir. That was, of course, paid out of our advances, and it was paid at the rate of 5 per cent.

Mr. FREAR. In other words, we gave them that much less in cash or credit?

Mr. WADSWORTH. Yes, sir.

Mr. FREAR. In other words, since 1919 the interest account has been accumulating?

Mr. WADSWORTH. Practically in all cases.

The CHAIRMAN. Please put into the hearings such communications as you have that Mr. Frear speaks of by which the arrangement was made that the rate of interest should be 5 per cent, and the extension of time.

Mr. WADSWORTH. I will look that up.

Mr. FREAR. And the present status of the loans?

Mr. WADSWORTH. I understand there is no question on the part of the debtors that 5 per cent is the rate.

Mr. FREAR. What Governments did pay the interest in 1919, if you know?

Mr. TREADWAY. Suppose you look that whole matter up.

Secretary MELLON. There is a statement showing that.

Mr. WADSWORTH. Belgium, Czechoslovakia, France, Great Britain, Italy, Liberia, Rumania, Russia, and Serbia.

Mr. YOUNG. What are you reading from?

Mr. WADSWORTH. The annual report of the Secretary of the Treasury.

Mr. FREAR. Has that been placed in the hearings?

Mr. WADSWORTH. Yes, sir; in the hearings before the Finance Committee of the Senate.

Mr. YOUNG. Which Secretary?

Mr. WADSWORTH. The Secretary of the Treasury.

Mr. YOUNG. Mr. Houston?

Mr. WADSWORTH. There were two secretaries in office during that time. In the hearings before the Finance Committee we presented all of these figures in detail.

The CHAIRMAN. Be kind enough to place them in the hearings before this committee.

Mr. WADSWORTH. I will do so.

(The matter above referred to was later supplied by Mr. Wadsworth and is here printed in full as follows:)

[From the Secretary's Annual Report for 1920.]

"To and including November, 1918, the dates for the collection of interest from foreign Governments were May 15 and November 15. In the spring of

1919 the respective Governments were informed that it would be convenient for the Treasury to receive semiannual payments of interest on April 15 and on October 15 on approximately two-thirds of their respective obligations, and on May 15 and November 15 on the remainder. The full amount of interest due up to April 15, 1919, or May 15, 1919, was, except in the case of Russia, paid in cash on all these loans. To the extent that such interest was not paid from other resources of the foreign Governments concerned, it was paid from the proceeds of loans made by the United States Government. All interest on the debts of Cuba and Greece was paid as it became due.

"The following is an itemized statement showing the amount of interest heretofore paid by each of the foreign Governments on advances made to it by the United States Treasury:

Belgium.....	\$10,907,281.55
Cuba.....	1,136,865.47
Czecho-Slovak Republic.....	304,178.00
France.....	128,140,816.48
Great Britain.....	233,357,185.50
Greece.....	409,153.34
Italy.....	57,598,852.62
Liberia.....	161.10
Rumania.....	263,513.74
Russia.....	4,595,564.15
Serbia.....	636,059.14
Total.....	437,349,431.18

"The amount paid on Russian obligations represents the interest up to November 15, 1917, together with a partial payment of \$1,965,925.08 on account of the interest which became due May 15, 1918, and partial payments of \$1,399,877.43 on account of the interest which became due November 15, 1918. That paid by the Governments of Greece and Cuba includes interest paid up to October 15, 1920, and November 15, 1920, respectively. The amount paid by the French Government includes interest amounting to \$1,810,441.50 to July 31, 1919, on an obligation dated January 28, 1919, and also interest accrued after April 15, 1919, on \$19,302,357.55 principal subsequently repaid by the French Government in connection with the adjustment of accounts. The sum paid by the British Government includes \$2,244,778.59 interest accrued after May 15, 1919, on \$80,181,641.56, principal subsequently repaid by the British Government in connection with the adjustment of accounts, and that paid by Rumania includes a partial payment of \$154,409.63 on account of interest accrued to October 15, 1919.

"The Secretary of the Treasury holds a special fund of \$1,808,506, which is equal to the unpaid balance of the interest which became due on Russian obligations on May 15, 1918. It is believed that ultimately this can be applied in discharge of this balance. A similar fund of \$385,069.07 is held which it is believed will be applicable upon the unpaid balance of the interest which became due November 15, 1918, on the Russian account. The interest accrued and remaining unpaid on Russian obligations, after deducting these special funds, for the half year ending November 15, 1918, is \$2,994,025.10, and for the half years ending April 15, 1919, and May 15, 1919, is \$4,101,107.50."

Mr. HAWLEY. If this legislation is enacted, when you take the obligations of the foreign Governments, will you take them in units of their own currency?

Secretary MELLON. No.

Mr. HAWLEY. Will you take them in terms of the American dollar?

Secretary MELLON. All in the American dollar.

Mr. HAWLEY. Even on the gold basis you would not take them in their own currency?

Secretary MELLON. That would not be practicable, because the values are varying all the time.

Mr. HAWLEY. I only wanted to know how you safeguard the principal of our loans to them.

Secretary MELLON. The obligations express the American dollar, and that is the way in which payment is to be made.

Mr. COLLIER. Do you collect interest payments on this?

Secretary MELLON. No; we have not charged up any interest on these deferred interest payments in the past—that is, interest on interest, or compound interest.

Mr. WADSWORTH. That was the principle of increasing the rate of interest—in order to make up for the three years.

Mr. HAWLEY. Have any of the foreign Governments asked that that be admitted?

Secretary MELLON. Canceled?

Mr. HAWLEY. Yes, sir.

Secretary MELLON. No, sir.

Mr. HAWLEY. There has been a good deal in the press from time to time as to that.

Secretary MELLON. There has been abroad and in the press, but there has not been any official request from any Government for the remission of interest. In regard to the question of interest on interest, or as to compounding interest, Secretary Houston, in his annual report to Congress for the year 1920, clearly showed that it was not contemplated that interest should be charged on the postponed interest, at least, during the two or three year period. That is the time that the interest has been deferred; that there should not be interest charged on the interest was the understanding that these foreign Governments had from the Treasury Department.

Mr. WATSON. Do we hope to collect from Russia or wipe that off the books?

Secretary MELLON. That seems hopeless. It is not a large amount.

Mr. WATSON. \$187,000,000, as stated here.

Mr. COLLIER. Czechoslovakia is a bad place?

Mr. WADSWORTH. I think they are getting along quite well at the present time; they are rather better off than most of the rest.

Mr. HAWLEY. They have the grain belt of the Austrian Empire.

Mr. FREAR. Mr. Secretary, this bill which appears on page 7, as you have said, gives practically unlimited authority to the Secretary of the Treasury in making these settlements. Who drew the bill, may I ask?

Secretary MELLON. It was drawn in the Treasury Department and then submitted to the Attorney General and the Secretary of State, who went over the matter.

Mr. FREAR. It could not be made any broader apparently in its terms, and therefore I wish to ask, if there is any objection on your part to restrictions being placed in the bill?

Secretary MELLON. Well, that would depend on what the restrictions might be.

Mr. FREAR. I would offer them specifically, so you would know.

Secretary MELLON. I will say this: It would be difficult to place limitations, which might not be obstacles in the way of this refunding. I do not think that we could make as good a piece of work with the refunding if we are limited in the terms of the authority.

Mr. FREAR. Would there be any objection to placing other people with you, or associating them, with the power to help negotiate these loans, for instance, representatives of the Senate and House or whatever body might be considered advisable to cooperate, or would the Secretary feel that he alone was best equipped?

Secretary MELLON. I think, as to that, I would personally rather invite it because it is a very great responsibility. However, it would make it more difficult to act in these matters. The negotiations will be separately with each Government, or in some cases we will have to work at the same time with other Governments, and we will have to be prepared to say what we are willing to accept, and so forth. If there is a body to consult, it prolongs the operation.

Mr. FREAR. I do not mean a legislative body; but if you are willing to be associated with two or three men, or possibly more, who would be equipped to know the feeling in this country in regard to settlement and who could cooperate with you in effecting settlements—for instance, if some one could be selected from the House and some one from the Senate, the bodies which raise the revenues and which authorized these loans, if they could cooperate with you in making these settlements, the judgment of the three or five, whatever number is selected, I presume might be as good as that of a single individual. I say this because I have found in the report of the Finance Committee where you have expressed yourself practically alone that line.

Secretary MELLON. Personally, I would rather have some such arrangement, but it makes it too cumbersome not to be free to act.

Mr. FREAR. Let us understand. If you were to make these settlements you would turn immediately to your first assistant or some one like that, I assume,

and get his advice, naturally so, or to your second assistant, or would call in people who could advise, and you would not participate in these negotiations alone. This proposition which I suggest is that if some one appeared for the House and Senate and could cooperate with you, why would not their judgment be as satisfactory as the judgment of these other people with whom you would advise?

Secretary MELLON. As I understand it, it is all done with the approval of the President?

Mr. FREAR. That is true of all legislation.

Secretary MELLON. In all of these countries, England, France, and the others, the head of the branch of the Government corresponding to the Treasury has authority to act, and they negotiate directly. You will meet men with authority to conclude an agreement, and I think it would be advisable to have authority and not be handicapped to that extent.

Mr. FREAR. What authority is possessed and what powers are conferred?

Secretary MELLON. I understand that in all negotiations they have authority, governmental authority, to conclude the arrangements.

Mr. FREAR. Who has?

Secretary MELLON. In England the chancellor of the exchequer.

Mr. FREAR. How is he selected?

Secretary MELLON. He is selected by the Government as the others are.

Mr. FREAR. I mean, what is the procedure—is he selected by Parliament or the prime minister?

Secretary MELLON. He is just the same as in our Cabinet—a member of the Cabinet.

Mr. FREAR. Taking up another provision of the bill—

"Of or any other foreign Government and from time to time to receive bonds and obligations of any foreign Government in substitution for those now or hereafter held by the United States of America."

You state in the case of Austria some bond of some other Government or some security might be accepted. That is the only case that comes to your mind. Is there any objection to inserting in this bill a statement that no bond should be accepted from Germany or Austria as a substitute for any security of any other Government? The reason I ask that is because that has been commented upon to a large extent in the press, possibly without any foundation.

Secretary MELLON. There has been no contemplation of any substitution of that kind. There might be a possibility somewhere that there would be some German reparations bonds offered which under the circumstances might be better than the obligation of the debtor Government, but I do not think that contingency is going to arise at all.

Mr. FREAR. You know the criticism that is aimed in the press and exists in this country in regard to that proposition. Do you believe there would be any objection to inserting that limitation?

Secretary MELLON. I do not believe that situation will develop.

Mr. FREAR. Mr. Secretary, you say that you have not any contemplation, but we are placing a tremendous power in the hands of one man. You might be out of office—I mean by reason of changes that come in life, I hope you will not, the people have great confidence in you, but it is a tremendous power to place in any one man's hands?

Secretary MELLON. Yes, sir.

Mr. FREAR. And suppose any other official chose to substitute a German or Austrian bond, there is no limitation of any kind in the bill.

Secretary MELLON. It is a question of judgment. I can not conceive of a situation where one would want to take the responsibility of taking a German bond if any other better arrangement could be made. That which you speak of, to limit the authority to the direct obligations of the debtor Government; a limitation of that kind if any, I think, should be confined to the principal debtor powers, to the larger items which constitute more than \$9,000,000,000 of this debt. As to England, France, and Italy, it is inconceivable that any such contingency will arise. I do not see that it would be objectionable to have a limitation applied as to the principal debtor powers, but when you come to the smaller nations there might arise some contingency where it will be found expedient to take some other security than the obligations of the Government itself.

Mr. FREAR. What Government can you conceive of except Russia?

Secretary MELLON. As to the larger powers, I would say it is inconceivable. However, some of the smaller nations might have something, possibly a State

railway system or other obligations of a local nature, to offer. They might have some industrial resources upon which a lien might be taken.

Mr. FREAR. I think you misunderstand my question, which was to prohibit the substitution of German or Austrian securities for those of any other Government—not the acceptance of any securities outside of governmental securities.

Secretary MELLON. I do not think that, so far as the German or Austrian bonds are concerned, there would be any special objection to limitation. However, there is the indebtedness of Germany for the payment of the occupation troops. Some obligations of Germany will have to be taken for that.

Mr. FREAR. That is not a substitution?

Secretary MELLON. No, sir.

Mr. FREAR. That is not affected, I take it, by this proposal?

Secretary MELLON. Your question is whether there would be objection to a prohibition against the substitution of German or Austrian securities for those now in existence. I would not say there would be.

Mr. FREAR. It would simply meet what has been suggested in the public press and elsewhere as a fear that may be groundless but finds expression?

Secretary MELLON. I would not say that there would be any objection.

Mr. FREAR. Would there be any objection to a limitation, as to time, for instance, the payment of the accrued interest being stipulated—that is, a limitation that it should be paid within two years?

Secretary MELLON. There are some of those nations where I do not believe it would be possible for them to pay anything in two years unless we sent an army over to collect it. They do not have anything. They have not any gold and they have not the means of paying anything.

Mr. FREAR. The situation that confronts us is practically this, that for almost three years the interest has not been paid, except by those countries which paid up to May 5, 1919. There have been claims made through the press and elsewhere that these interest payments are to be postponed for a long period. What kind of a limitation can properly be placed in the bill, because the Secretary of the Treasury, if this same power is given, can postpone the payment to any time, like he can the principal?

Secretary MELLON. As to that, there may exist such a situation in the foreign-trade conditions in regard to the rate of exchange, etc., that in the first place would make it very difficult for the debtor country and would add a very large percentage to the amount necessary to meet cash payments, and at the same time, if they were forced to pay, it might react against the interests of this country. That is, might be a block to the exporting of commodities from this country; if we forced the payment of interest which would naturally depreciate their currency and raise the rate of exchange tending toward prohibition of sales from this country to that country, so there may arise conditions where it would be, I might say, necessary to defer the interest—it might be a great deal better for this country to defer the interest than to insist on its payment.

Mr. FREAR. Does not that argument apply to every nation abroad, because there is a difference of exchange in all countries to-day?

Secretary MELLON. Yes; exactly; but an ordinary handicap of that sort would not be.

Mr. FREAR. The disposition here is to leave all of these propositions to the Secretary to decide for himself what is for the best interests of the Government and the foreign Governments. That brings to your mind the tremendous responsibility that is involved in this.

It has been alleged and, of course, you are aware of that argument, that large private interests, known as the international bankers, have individual claims which cause them to urge the postponement as long as possible of government claims, in order that theirs may have priority and be paid as rapidly as possible. Do you know the amount of the private claims or the claims of the bankers outside of the Government claims that exist in favor of this country against Governments abroad?

Secretary MELLON. We have very large claims against most of the countries abroad, carried as the balance of trade, against foreign bankers and industrial corporations. The situation varies from time to time.

There are times when, in spite of that adverse balance, their necessities drive them to buying in this country and to paying a very large premium or rate of exchange. In this country, for instance, there has been legislation to facilitate the export of commodities; there has been legislation of late to benefit the agricultural districts through making loans and to relieve them by facilitating

the exports of grain. If we should attempt to enforce this collection it might destroy the benefit of all of that assistance to the agricultural regions. You might make it so that they could not possibly buy in this country; they have not got the gold to pay and the rate of exchange is against them; that is, an importer in that country who is buying in this country has got to pay what the rate of exchange indicates as an addition to the cost in this country in every case.

Mr. FREAR. Getting back to my question, could you estimate in any way the amount of the obligations that are owed by private banks and individuals abroad to people in this country?

Secretary MELLON. I have seen that estimated; but I do not believe—

Mr. FREAR (interposing). In 1917 it was estimated, as I understand, at about \$7,000,000,000, with some credits to deduct. That was before we went into the war. That statement has been made, but I did not know whether it was accurate, and I was asking for your judgment.

Secretary MELLON. I have seen a later statement as low as \$4,000,000,000, but I rather think it may be above that. But none of those estimates are at all accurate.

Mr. FREAR. Would there not be pressure brought to bear upon the one authorized to settle for this Government to withhold the claims of our Government until that private indebtedness had been reduced or paid?

Secretary MELLON. The effect is the same in any event; and the ordinary operation of trade, even with these handicaps, usually works out in time.

Mr. FREAR. What would be your disposition in a case like that? You would have to depend, I suppose, upon the individual case as to what to do.

Secretary MELLON. On the individual case as to each country. For instance, with Great Britain I rather think it could be arranged so that they would commence to make payments of interest right along. I think it is their desire to do that. As a Government it is rather to their advantage. Even at the additional cost of exchange it is rather to the advantage of a government to make those payments, because in making payments they place, to that extent, a barrier against purchases by their people in this country, in other words, against creating more foreign debt by purchasing, and it is an advantage also to their trade with other countries, that the rate of exchange is against them.

Mr. FREAR. I can understand that that would be their attitude, but what would be the attitude of the people in this country—the bankers here who have those obligations of the private banks over there and private individuals? Their interest, of course, would be to have their claims preferred, would it not?

Secretary MELLON. As far as that is concerned it is not a question of preference. In other words, they have contracts providing for certain specific times of payment, and they enforce them. Of course, there may be bankruptcies, or difficulties of that sort, to prevent their obtaining payment, and I do not see that there is anything which the Government may do that will defer or prefer the private debts or that will make an exception as to the private debts.

Mr. FREAR. I understand, but has the money we have loaned—any part of this \$10,000,000,000 or whatever it may be—been applied upon these private debts since that statement was made in Chicago as to \$7,000,000,000, or thereabouts, being the amount due from abroad? Could it in any way have been applied in reducing that indebtedness abroad?

Secretary MELLON. Oh, no.

Mr. FREAR. I was wondering in what form it could have been applied, because I can not understand myself how it could be applied.

Secretary MELLON. In the first place, the debts exist just the same as in the beginning. This money was loaned and it is an existing debt.

Mr. FREAR. I understand that the money which was loaned was to pay for war supplies, etc., but I mean could any part of it have been applied upon this other debt in any way?

Secretary MELLON. Oh, no. The money remained in this country and was expended for the purchase of supplies, except to a very limited amount. At the time it took care of some banking debts of the Governments in this country, but that was rather small in proportion to the whole debt.

The CHAIRMAN. If I am right, in the act that authorized the loans there was no limitation as to how much or to what country the money should be loaned.

Secretary MELLON. No.

The CHAIRMAN. Except that the loans were to be made through the Secretary of the Treasury, with the approval of the President, so that it seems to me there ought to be unlimited authority to collect what we loaned under unlimited authority.

Mr. FREAR. But there certainly was a guaranty that the rate of interest should be the same, as I understand.

The CHAIRMAN. Congress took no action whatever?

Secretary MELLON. Not on the rate of interest.

Mr. FREAR. It provided for the same terms, did it not?

The CHAIRMAN. The act that authorized the loans?

Mr. FREAR. Yes.

The CHAIRMAN. It provided that they should pay the rate of interest which we paid ourselves.

Mr. FREAR. There is no limitation in this bill at all. I want to ask this question, because the statement appeared no longer ago than yesterday's press that in the coming disarmament conference this matter would be taken up and discussed, that is, the question of these obligations, and that that question would become a factor there. Is there any such intention, to your knowledge?

Secretary MELLON. Not any, and I have no such knowledge or expectation.

Mr. FREAR. Would there be any objection to waiting until after the result of that conference before this act is passed?

Secretary MELLON. Well, here we are with this large indebtedness standing and Great Britain is ready to go on with the funding of it, and the smaller countries owe money which is already due or past due, so it is not a good situation that we should allow these matters to remain without being arranged and disposed of. For instance, you take some of those smaller countries that are also indebted to some of the large countries; they are going on to look after their claims and we are not; we are not along with them to look out for our rights and we may be losing in that way. It is not a good situation.

Mr. FREAR. Is there any objection, under the law as it stands to-day, to your accepting interest payments, or even payments on principal, from any of the Governments, England included?

Secretary MELLON. Oh, no.

Mr. FREAR. So that if they choose they can pay without additional legislation, and the only purpose here is to determine the terms of the obligations that are to be accepted for the debts now existing?

Secretary MELLON. Yes. But the point I am making is that we should be working with some of these Governments to secure ourselves along with the other Governments having claims against those particular Governments.

Mr. FREAR. We have waited three years, and, that being so, what injury would result if it should be six months before this legislation should be put in force?

Secretary MELLON. Except that it is a rather bad situation not to have attention. That is all. It is simply a business proposition. If you had a lot of creditors owing you in that way and some of those creditors owed other men, you would feel like looking after it and straightening it out by making the best bargains you could make.

Mr. FREAR. Unquestionably. If it were not for the fact that the press, including one of the Washington papers—I have the clipping here—suggests that this is to be taken up and considered in the disarmament proceedings, the purpose alleged being to use it as one of the pawns, and I understand that one of the leading statesmen of Great Britain has stated something to that effect in Parliament.

Secretary MELLON. I did not see that.

Mr. FREAR. You have heard of it?

Secretary MELLON. There is no foundation, so far as we are concerned, and I do not think those statements in the press deserve any consideration.

Mr. FREAR. Well, they receive some consideration throughout the country, of course.

Secretary MELLON. That may be.

Mr. FREAR. And the reflection comes back to those here.

The CHAIRMAN. Have you concluded, Mr. Frear?

Mr. FREAR. Yes.

The CHAIRMAN. Mr. Secretary, on page 5 of this report or letter I find the statement that there are \$9,435,225,329.24 of direct loans; \$2,114,000,000 loaned prior to September 24, 1917, and \$7,321,225,329.24 loaned after that date. We hold the short-time obligations of all the Governments named in that list for the entire \$9,435,225,329.24, do we not?

Secretary MELLON. Yes.

The CHAIRMAN. And they all bear interest at the rate of 5 per cent?

Secretary MELLON. No; in the larger items they are governed by the provisions in the Liberty loan acts out of which the money was loaned, and the 5 per cent is the result of negotiations or of an understanding, and they are satisfied to pay 5 per cent.

The CHAIRMAN. Those bonds provide for 5 per cent interest.

Secretary MELLON. No; the bonds provide for varying rates. As you understand, the Liberty loan acts provided for varying rates of interest. There were some at 4 1/2 per cent, and so on.

The CHAIRMAN. Probably I do not make myself clear. I mean that the obligations of the foreign Governments which we hold all bear interest at the rate of 5 per cent?

Secretary MELLON. No.

Mr. ODEFIELD. Third. It what the letter says.

The CHAIRMAN. Yes. Those obligations of Belgium, Cuba, France, Great Britain, and so on, that our Government holds.

Secretary MELLON. There is no doubt about that.

The CHAIRMAN. They all bear 5 per cent.

Secretary MELLON. Yes. That is the interest rate that is now understood and settled upon.

Mr. WADSWORTH. The obligations given under the first Liberty bond act read 3 1/2 per cent, while others read 4 1/2 per cent. But ultimately it was agreed that they should all carry 5 per cent interest.

Secretary MELLON. And you can take it that now the rate is 5 per cent on all of them.

The CHAIRMAN. On page 6 it appears that there are open accounts with the Governments indited in the list amounting to \$565,048,413.80.

Secretary MELLON. Yes.

The CHAIRMAN. Also \$56,800,879.09 in other open accounts, and \$84,093,963.55, on page 7. Those are all open accounts, are they?

Secretary MELLON. I think they are duebills.

Mr. WADSWORTH. It states right opposite the date of maturity of those schedules.

The CHAIRMAN. Have you a short-time obligation or duebill for all of those accounts?

Mr. WADSWORTH. Yes; for all of those accounts; and the date of maturity is listed opposite each account.

The CHAIRMAN. And it is generally understood that the rate of interest is 5 per cent, except as to a few items on page 6 where, in several instances, the rate is 6 per cent?

Mr. WADSWORTH. Those higher rates were agreed to under an arrangement made by the Secretary and by a representative of the Grain Corporation.

The CHAIRMAN. Mr. Secretary, what you want is authority to extend all of these claims into long-time obligations and to get the best settlement you can from some of those Governments in cooperation with other Governments that have similar claims?

Secretary MELLON. Exactly.

Mr. WADSWORTH. I might say that as to those last schedules you read the Comptroller of the Treasury has ruled that there is no authority to deal with them except to collect the money. We can not take a new note nor can we make an extension. It is an asset of the Government, and the only way it can be dealt with is to collect it. So we are unable to even negotiate with these nations.

The CHAIRMAN. It is a past-due promissory note; that is what it is.

Mr. WADSWORTH. That is all, and there is no authority in anybody in the Government to deal with any of those notes.

The CHAIRMAN. Except to collect them.

Mr. WADSWORTH. That is it; which means that these countries have on their balance sheets an obligation, and they do not know what is going to happen to it; they are unable to fund it or negotiate with the nation to which they owe the money. It just stands there, and it is a definite obstacle to their recovery and to their putting their own financial condition into the usual normal form.

Secretary MELLON. And we have not been neglecting any of them; that is, in each case we have looked into their condition and looked into the question as to whether this money can be obtained, whether it can be collected; but it is necessary to grant further time, because it is absolutely impossible to enforce payment at this time.

Mr. FREAK. What time would you say, Mr. Secretary, if you care to express any opinion, would be the outside limitation on the extension of these obligations?

Secretary MELLON. There are some here where it may have to be a very considerable time.

Mr. FREAK. That would mean 20 or 50 years.

Secretary MELLON. Well, I do not know about that. I think that perhaps it could be worked out where some smaller percentage payments might commence, or at least be stipulated to be paid, and then, if they could not meet the payments when the time came we would have to extend the time. But there are some of them where you can say they have nothing; there is just a vacuum there and nothing is to be got.

Mr. FREAK. Would you leave this provision unlimited as to the time in which the Secretary might act or would you put some limitation on that?

Secretary MELLON. Well, it would be pretty difficult to put a limitation on.

Mr. FREAK. This leaves it open, without any restriction.

The CHAIRMAN. You could make it 30 or 40 years if you wanted to, Mr. Secretary, could you not?

Mr. FREAK. I am speaking about the power of the Secretary to act. I am asking whether there should be any limitation put upon the Secretary's power to act. In other words, Congress has no immediate supervision of this work and the Secretary might have power under this to act for 40 years to come.

Secretary MELLON. No; you see, there is an amendment limiting it to five years.

Mr. FREAK. That is the amendment offered by the Senate committee.

Secretary MELLON. Yes.

Mr. FREAK. But there is no limitation under the bill which is before us?

Secretary MELLON. Not in the bill before you; no. But there is no objection to having a limitation. I think that in all of these cases they will have been arranged and settled as to terms, etc., within possibly two or three years. The larger ones will be settled within, I judge, one year, but there is no objection to a reasonable limitation of that kind.

The CHAIRMAN. Five years?

Secretary MELLON. Five years; yes.

The CHAIRMAN. As fixed by the Senate?

Secretary MELLON. Yes.

The CHAIRMAN. Does any other gentleman desire to ask the Secretary any questions?

Mr. GREEN. I understand that you speak of what you now hold from the foreign Governments as evidence of the loans made under the various Liberty bond acts as obligations. Does the Government hold anything more than a mere receipt?

Secretary MELLON. Well, it is pretty nearly that. It is a duebill or note.

Mr. WADSWORTH. It is a definite form of note, and it is recited in the Secretary's report.

Mr. HAWLEY. It was signed in this country by the diplomatic representative and not by the fiscal agent of the country getting the loan.

Mr. WADSWORTH. It was signed by a representative of the Government, and that representative was duly authorized to sign.

Mr. GREEN. How do you mean duly authorized? No parliamentary or legislative action was taken.

Mr. WADSWORTH. In each case the State Department was asked to find out whether the individuals signing these obligations had authority from their Governments, and in each case the State Department inquired and found out they had. That is all on file.

Mr. GREEN. If they had made a little further inquiry they would have found that they did not have very satisfactory authority, because they ought to have known that there was no legislative act passed authorizing anything of the kind, either in Great Britain, France, or Italy.

Mr. WADSWORTH. I do not understand that any of these countries question in any way the validity of these obligations; I have never heard a word about that.

Mr. GREEN. Who made this contract, with reference to the interest—the 5 per cent interest—which I heard mentioned?

Mr. WADSWORTH. It was accepted by these same representatives who were here representing the foreign Governments.

The CHAIRMAN. The representatives who signed the obligations of the foreign Governments?

Mr. WADSWORTH. Yes.

Mr. GREEN. Is there any written statement to that effect?

Mr. WADSWORTH. We were discussing that a moment ago, and I think there is; but there is ample evidence in the form of general discussions, held at the time these loans were made and at the time the rate was raised, to the effect that the rate is 5 per cent, and they have paid it at the rate of 5 per cent in certain cases. They accepted the rate and paid the money.

Mr. GREEN. Who paid the interest?

Mr. WADSWORTH. Paid to the United States.

Mr. GREEN. But what Governments have paid the interest?

Mr. FREAR. That appears here.

Mr. WADSWORTH. I read that last a moment ago. Belgium, Czechoslovakia, France, Great Britain, Italy, Liberia, Rumania, Russia, and Serbia. That is on page 58 of the Treasurer's annual report of last year and it is in the hearings of the Finance Committee of the Senate.

Mr. FREAR. This interest was paid to May 15, 1919, on obligations of France, Italy, Belgium, Rumania, Serbia, and Czechoslovakia. What was the reason that the interest payments were stopped at that time, if you know?

Mr. WADSWORTH. They were stopped in connection with this negotiation that was going on for the funding of these debts, as laid before this committee by Secretary Glass in a letter of December 18, 1919. He wrote this committee a letter and outlined the plan which he was then trying to work out for funding the debts.

Mr. FREAR. That is over two years ago. The interest was paid before that without any effort to fund the debts, and I was wondering why since that time no effort has been made—or has there been an effort made to secure interest from these Governments, or any of them?

Secretary MELLON. You understand that in those negotiations there was an understanding, and that these Governments were advised that the interest would be deferred for two or three years.

Mr. CHANDLER. Mr. Secretary, I understand that a short time ago this Government paid Great Britain, in settlement of certain claims that they had against this Government, fifty-odd million dollars. Can you tell us why that was not applied to Great Britain's obligations to this country?

Secretary MELLON. That was, I think, \$32,000,000, was it not?

Mr. WADSWORTH. Yes.

Secretary MELLON. There were balances between the two Governments—Great Britain and our Government—and there was an understanding by which the balances arising from the transportation of troops, etc., should be paid by each Government upon the rendering of accounts; and Great Britain in every case paid the claims that were made upon her and our Government in each case made payment of the claims of the British Government, so that there was no occasion then to ask that it be applied on the debt. That custom had been running for some time, and there were indebtednesses for supplies, etc., of Great Britain to our Government, and there was an indebtedness of our Government to Great Britain for the transportation of troops and for purchases abroad. Now, in all of those cases they were settled without regard to this standing indebtedness, and that particular \$32,000,000 was an account that came up in that way, and there was to that extent, I was going to say, an obligation. We could have insisted that that amount be applied, but it would have been breaking an understanding which had been arrived at, and Great Britain had paid promptly every claim of this Government that was made in respect to those current arising obligations.

Mr. CHANDLER. There has been a great deal of criticism in the press over making this payment while Great Britain owes us so much money, and there seem to have been no reasons given to the public as to why this payment was made, and I thought I would bring it out here.

Secretary MELLON. If you should take the record of the transactions between the two Governments for the period before that you would see that it would have been a sort of branch of—I was going to say fair dealing—but it would have been contrary to the understanding. They had made their payments promptly, and large payments, too, and our Government had been accustomed to paying them the payments on that side. They might have arranged to set off one against the other, and gone on, and then in the end there would have been a balance which might have been settled against this indebtedness,

but the custom was the other way and, therefore, when it came to that particular item of \$32,000,000, there was no reason for holding back payment, because they were really entitled to it.

Mr. GREEN. Was there any large sum due from England to us on an account of that kind?

Secretary MELLON. There were large sums due from England that had been paid by England, and at that same time—

Mr. GREEN (interposing). For what purpose?

Secretary MELLON. Well for instance, at the time that \$32,000,000 was paid there was a claim of the Shipping Board against England that had not been adjusted. The Shipping Board claimed about \$12,000,000 and Great Britain objected to some of the charges and they had not adjusted it. I do not know whether that has been settled yet or not, but Great Britain was ready to pay the Shipping Board, although the accounts had not yet been adjusted.

Mr. GREEN. I understood you to say that Great Britain had paid some large sums and the query arose in my mind as to what they were for.

Secretary MELLON. I do not know particularly, but she had promptly met the claims of this Government. There were, as I understand, war materials and certain things that Great Britain had to pay for, and we paid Great Britain large sums.

Mr. GREEN. We bought very large quantities of Great Britain?

Secretary MELLON. Yes. And then, again, \$32,000,000 as against over \$4,000,000,000 represents a small item. There had been this custom of paying these balances between the two Governments, and there did not seem to be any occasion to insist upon this payment. Great Britain has not refused to pay. For instance, if we should say that she should pay the interest, she would pay the interest. It just happened that in the course and custom of dealings that \$32,000,000 was due Great Britain, and according to the custom observed in such transactions, it was payable.

Mr. COLLIER. When was that amount paid?

Secretary MELLON. That was paid some months ago.

Mr. WADSWORTH. I think it was paid in June. There was a final accounting between the British ministry of shipping and the War Department for the transportation of troops, and this payment was made upon the final clean-up of accounts. Great Britain had paid substantial sums to the War Department, and the War Department had paid substantial sums to the British ministry of shipping. Finally they adjusted their accounts and this final payment was made.

Mr. COLLIER. You do not expect that it will be very long before we will be receiving interest payments from both Great Britain and France?

Secretary MELLON. No, sir; we think that it will all work out. Those countries are becoming rehabilitated; they are at work, and a new generation is growing up. Their affairs are getting into better shape, and I have not any doubt that all of the debts of those leading countries will become very substantial securities that will be available to this country.

Mr. COLLIER. The debts of those two countries represent about 60 per cent of all the indebtedness?

Secretary MELLON. I have no doubt that in the case of most of those minor countries, as time goes on, their affairs will be adjusted, and that eventually their debts will be collectible.

Mr. COLLIER. The debts of those two countries, Great Britain and France, represent over 60 per cent of the entire indebtedness, do they not?

Secretary MELLON. Yes.

Mr. COLLIER. Then, Italy is in pretty good condition, or is getting into good condition, is she not?

Secretary MELLON. Yes; and Belgium is also.

Mr. COLLIER. The debts of those four countries represent, in round numbers, 80 per cent of the entire indebtedness, do they not?

Secretary MELLON. The indebtedness of those four countries, including Belgium, represents over \$9,000,000,000, or nineteenth of the whole.

Mr. FREAR. Counting the accrued interest, the amount runs to a little over \$11,000,000,000?

Secretary MELLON. Yes.

Mr. FREAR. I omitted to ask you in regard to the record in the case of Mr. Rathbone.

Mr. WADSWORTH. That is in the Senate record.
Mr. FREAR. Can you tell me in which one of the documents? I have looked for it, but failed to find it in the pamphlets handed me by the clerk. Where is Mr. Rathbone now? As I understand it, he went to Europe to try to negotiate a settlement. He is not with the department now?

Mr. WADSWORTH. No, sir; he retired two years ago.
Mr. FREAR. He is living in this country now?
Mr. WADSWORTH. Yes, sir; I think he is in New York mostly.
Mr. FREAR. He is a New York business man?
Mr. WADSWORTH. He is practicing law.
Mr. FREAR. Exhibit No. 2 and Exhibit No. 3 cover the Rathbone correspondence?

Mr. WADSWORTH. Yes, sir.
The CHAIRMAN. You are going to furnish us certain statistics and correspondence that were referred to awhile ago for insertion in the record.
Mr. WADSWORTH. As to the 5 per cent?
The CHAIRMAN. Yes.
Mr. WADSWORTH. That will be furnished.
The CHAIRMAN. And the authority for that, whatever it may be, so that it may be included as a part of the record.
(The matter referred to is as follows:)

TREASURY DEPARTMENT.
Washington, October 6, 1921.

DEAR MR. FORENEY: In accordance with the understanding at the meeting of the Committee on Ways and Means this morning, I quote below part of a letter written October 31, 1918, by Mr. Albert Rathbone, then Assistant Secretary of the Treasury, to Mr. Andre Tardieu, French high commissioner in the United States. This is rather a long letter analyzing the amount of interest due at that time by the French Government. The figures contained therein are immaterial. The part relating to the rate of interest which was to be paid upon the indebtedness of France to the United States is as follows:

OCTOBER 31, 1918.

DEAR MR. TARDIEU: * * * In Mr. Leffingwell's letter before mentioned he stated that it was hoped that the rate to be borne from May 15, 1918, by all the short-time obligations of your Government held by the United States would shortly be determined. The matter of the rate to be borne for said period on said obligations has received the careful consideration of the Secretary of the Treasury. In view of the tax exemption features of the United States bonds which have been issued providing the moneys which have been loaned to allied Governments, and the other costs attendant upon the raising of this money, the conclusion has been reached that taken as an entirety the cost of this money to the United States is approximately 5 per cent. The Secretary of the Treasury is of the opinion that the interest on the obligations of the allied Governments should be sufficient to reimburse the United States the cost of the money loaned to the allied Governments. Accordingly, the interest due November 15, 1918, for the previous six months on the various obligations of your Government now held or hereafter acquired during said period by the United States will be computed so as to return interest on the entire amount at the rate of 5 per cent per annum. It is unnecessary therefore in figuring such interest to state the amount of United States 3½ per cent Liberty bonds converted into 4 per cent bonds and 4½ per cent bonds, or the amount of the 4 per cent bonds converted into the 4½ per cent bonds.

The obligations of your Government now held by the United States or acquired by it between October 31 and November 15 next shall continue to bear interest at the rate of 5 per cent unless and until notice is given to the contrary.

Mr. ANDRE TARDIEU,
French High Commissioner, Washington, D. C.

ALBERT RATHBONE.

Under date of November 8, 1918, Mr. Tardieu replied in accordance with the following:

REPUBLIQUE FRANCAISE,
Washington, D. C., November 8, 1918.

Mr. ALBERT RATHBONE,
Assistant Secretary of the Treasury, Washington, D. C.

MY DEAR MR. RATHBONE: I beg to acknowledge receipt of your letter of October 31, received by me on November 6.

I take note that my Government is entitled to a sum of \$18,803.45 as adjustment for the excess of interest paid on May 15, 1918, and I agree upon having this amount credited on account of the interest for the six months' period which will become due November 15.

I also take note that the Secretary of the Treasury is of the opinion that the interest on the obligations of the allied Governments should be sufficient to reimburse the United States for the cost of the money loaned to the allied Governments, and that accordingly, the interest due November 15, 1918, will be computed so as to return interest on the entire amount at the rate of 5 per cent per annum. I informed my Government by cable of this decision.

I am, my dear Mr. Rathbone,
Very truly, yours,

J. SIMON,
For the High Commissioner.

I find that a letter of practically the same tenor was sent at about this time to the following countries: Belgium, Great Britain, Italy, Russia, Serbia.

All obligations received subsequent to October 31, 1918, from foreign Governments for advances made by the United States Treasury bear interest at the rate of 5 per cent per annum.

The terms set forth by the Treasury on the rate of interest were recognized by letters from representatives of these Governments.

Further than this the accrued interest as of April 15 and May 15, 1919, was figured at 5 per cent and each of the Governments paying interest on those dates accepted this rate.

Very truly, yours,

ELIOT WADSWORTH,
Assistant Secretary.

The CHAIRMAN. If there is nothing else the committee will stand adjourned. (Thereupon the committee adjourned.)

MSH 22045

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**END OF
TITLE**